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# Will Privatisation of Power Distribution Utilities in India be Adaptive Enough to Control Exodus of Retails Consumers and be Politically Palatable?

NOVEMBER 2020



# Market Research Flash Report

## Why eninrac's market research on feasibility & indexation of discoms viable for privatization in India?

### Will the power of PPP put the right plug in ailing and dysfunctional power distribution utilities in India?

**With the intent of Government of India to induce PPP in management of power distribution companies by floating Standard Bidding Document (SBD), will it be feasible both tactically and operationally to do so remains the big question?**

The woes of power distribution companies in India is not a hidden fact and the way their operations are managed despite multiple efforts by the Government and Regulatory bodies are still witnessing rampant losses. Also, this is not a problem in specific to India only but is existing across the globe wherein inability or unwillingness to collect fees from users, political interference, and lack of managerial skills among senior staff are infecting the power distribution sector. Such operations has had a cascading impact upon the power generation with slack in investments which shall lead to a deficit in supplies eventually, given the rate of rise in demand. India has been racked by this kind of sickness for far too long then desired and perhaps therefore the GoI intends to ring in arguably some harsh and corrective measures which is nothing but increasing private participation in the sector through PPP mode. It is certain that if the Government is willing to bring in private participation with an intent bring back the utilities to first develop and then nurture good fiscal health, will not be easy.

The reasons are many but the key one's which cannot be ignored are the interests of the employees, the management and handling of PPA's and obviously the role of regulators in terms of managing the players and competition in the sector. However, there are ample reasons to counter the above reasons which therefore validates the feasibility examination for discoms which potentially can undergo the privatization.



One of the most significant reasons to pitch for privatization is the extent of success which has brewed for both the privatization models prevalent in India i.e. either on licensee or franchise models.

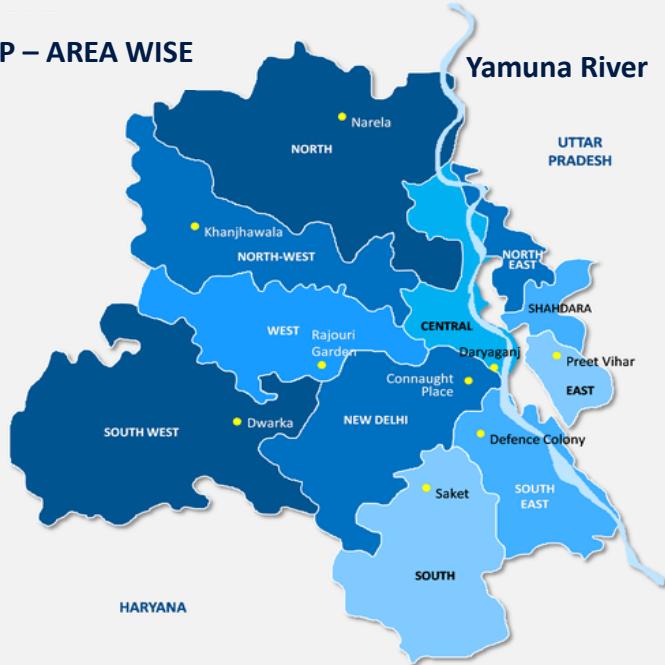
The case of national capital Delhi has been one of the finest case studies to understand as to how and why the grappling situation of power outages in early 2000's found a resolve in privatized utilities with profitable and sustainable business for long-term. The notable highlights for the Delhi privatization can be summarized as below (if applied and adapted wholly by the new SBD draft does offer potential to achieve successful results for the ailing discoms across the country):

- *A tripartite agreement which offered guarantee of non-retrenchment of the employees and continuance of service of employees on same terms prior to the purported transfer*
- *The liability for retirement benefits of existing Delhi Vidyut Board (DVB) employees and retirees were secured in the Pension Trust Fund*
- *All past liabilities and losses of DVB were not to be passed on to the successor companies. This step was done to ensure that restructured entities started with clean opening balance sheets.*
- *The use of AT&C/ATC&C losses as the criteria for selection of preferred bidder for privatisation of discoms*
- *The MYT framework also assured regulatory certainty for over a determined period; Government was supposed to provide for transition period support/subsidy to cushion impact of tariff shocks. For this a loan of ₹ 34.50 Billion was supposed to be given for the period of 5 year period post privatisation*
- *With regards to equity 51% was supposed to be divested in Delhi.*
- *The fundamental to Delhi privatisation was protection of employment and service conditions involved thereof*



**So the question which remained to be understood was whether the intent of privatization in Delhi led to the desired results or did the woes of losses for discoms continued?**

DELHI MAP – AREA WISE



Source: Sketch Bubble & eninrac

BRPL Efficiency Improvements (AT&C Loss Levels)



Tracking the performance of Delhi Discoms post privatization – Why such business case exist for most state-controlled power distribution utilities in India?



The key question which arises is the performance of the Delhi discoms post the privatisation. For this analysing the performance courtesy improvement in AT&C loss reduction. It is pertinent to notice that the pace of reduction in losses have tapered in MYT (Multi-Year-Tariffs) periods successively. Further, DERC has measured certain irregularities in calculation of losses.

TPDDL Efficiency Improvements (AT&C Loss Levels)



BRPL Efficiency Improvements (AT&C Loss Levels)



For all the three privatized power distribution utilities considerable decline was observed in the tune of AT&C loss levels and now is below 10% from a high of nearly 25% which is a testament to efficacy of privatization



**Key Signpost – Privatization though in case of Delhi has shown impressive results but we strongly believe to work on a pan India level is difficult unless such utilities are given desired “autonomy” with reduced regulatory interventions & a safeguard adaptive model to be worked out to counter distributed generation leading to exodus of retail consumers.**



**What’s our difference margin for market research?**



The State Electricity Regulatory Commissions (SERCs) do have an ownership for most of the power distribution utilities performing well below par with almost 15 state discoms still have loss levels in excess of 25% and 7 of them have it higher than that of 30% still. Therefore, arguably the role of electricity regulators in India becomes equally important in terms of having a collaborative approach to bring the desired autonomy in the functioning of the discoms which is on priority to deal with the systemic challenge of formulating tariff orders on time. The delay leads to a deferment in the tariff hikes which cascades into inability of discoms to get the desired revenue for the fiscal, thereby inflating the ACS-ARR gap furthermore. Also, the penetration of distributed generation is only going to increase given the fact that solar is becoming cheaper only and with the advent of battery energy storage technologies now and attaining economic sustainability in near future the woes of discoms shall further worsen as exodus of retail consumers shall continue to exist. Therefore an adaptive privatization model transcends as need of the hour basis the utilities structure and operation and can vary from licensing, franchisee and a profit-sharing model.



**1 Our Market Research Coverage Range**

- Evaluating the need for state owned power distribution utilities going private, and if yes then which model should be best suited as per utilities area of operation, consumer mix, loss levels (AT&C) with future trajectory & other operational parameters like billing efficiency, collection efficiency, and metering status etc.
- The extent of distributed generation penetration & business case for increase in Open Access (OA) mechanism in true sense in a state wise and utility wise analysis to ensemble the extent of exodus of retail consumers in coming years in coherence with base line date for the utilities under operation electricity distribution in respective states.



**2 Our Market Research DNA & Team of Domain Specialists**

- We boast a highly qualified and experienced team of market research professionals having experience of working in top companies across different domains
- Our focus on nurturing industry connect is paramount which helps us generate high quality robust market feed which is filtered and sourced through from different levels
- Any market research report follows strict turn-around-time procedures with cross-vetting from our Knowledge Grid Experts which adds immense value to our research credentials for the deemed subject



**3 Our Satisfied Patrons and Retention rate of over 98.6% on yoy basis**

We have been bestowed with a phenomenal client retention rate and many satisfied clientele. Our client’s have been from wide variety of industry domains and from different geographic locations across the globe. Eninrac consulting is a trusted market research partner and an objective resource augmenting value for more than 257+ Group companies & 1000+ organization across 40+ countries.

## Why privatization of power distribution utilities transcend as a compelling political case in India? Will it be able to protect the elements of social tariff structure or we shall see a change in age-old cross-subsidization?



### Privatization undoubtedly remains one of the last resorts for ailing power distribution utilities turn profitable, but will the state political dynamics and bureaucracy be eager to expedite?

In India privatization of the power distribution utilities have emanated as the last resort for the ailing distribution utilities to remain at bay from the losses and eventually succumb to it. Taking cognizance therefore, the Central Government is eager on privatizing all the discoms in Union Territories (UTs). But this move is not finding favor in most of the states courtesy the political system and the reluctance of bureaucracy even to adapt the renewed model of privatization despite being aware of benefits for the state exchequer.

**The Business Case for Feasibility & Indexation of Discoms Viable for Privatization in India** – The very business case for the feasibility examination first flowed by a rational indexation stands a must for all the stake holders (be it the Central Govt. State Utilities, State Govt. or the likely bidders in the form of generation companies, transmission utilities, EPC companies or the already existing power discoms or foreign companies etc.) courtesy complications involved in attaining same. Even the Standard Bidding Document (SBD) floated by Central Govt. for same does project for a feasibility examination of the discoms and in order generate a trajectory for AT&C loss levels which shall be key in a privatized utility performance examination. Also, only examining the loss levels are not going to provide for the base required for privatization the in-depth evaluation of base line data for discoms across circles and spread of consumers is quintessential. Coupled with this the structure of tariff existing in respective state’s factoring extent of cross-subsidization is another factor to be analyzed. Further, to make privatization of discoms political palatable requires addressal of certain issues like “social tariff structure” taking into consideration the economically weaker section of the society and their paying capability. This could be done by splitting of PPAs into two with older and cheaper ones could be used to fix the tariff for economically weaker sections of consumers on full cost basis.

The remaining PPAs could form the basis of cost to fix the tariff for the remaining consumers. In one sense the lower tariff so worked out for poor consumers would be justified, as most of the incremental demand in the last decade or so can be attributed to the lifestyle of the well-to-do section of society and to industrial and commercial establishments. The new PPAs contracted by Discoms in recent decades would mostly be the expensive ones, whereas the older ones with fully depreciated plants have lower power costs. **So, allocating only the older PPAs with lower cost to the Discoms to match the base demand of the poor, cannot or need not, be considered cross subsidy.** Further, the Amendment Bill of 2020 gives a very useful lever to the political system to attain the much higher loyalty of the poorer sections. Service Level Agreements (SLAs) can be imposed on Discoms with penalties. Such a concept of cluster billing already exists in many Discoms when the electricity consumption, say in large housing complexes, are billed at the DT (distribution transformer) level to the estate agency who then make and distribute individual bills based on sub meters. One of the reasons why private players hesitate to take over state Discoms is the hassle around collections from agri and rural domestic consumers. The mentioned scheme will mitigate that risk as well, improve the attractiveness of the Discom for potential suitors and enhance its equity value to the benefit of the state.



Truth is ever to be found in the simplicity, and not in the multiplicity and confusion of things

- Sir Isaac Newton



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